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# 2007 What's New and Other Important Information

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## Differences between California and Federal Law

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

## 2007 Tax Law Changes/What's New

**Registered Domestic Partners (RDP)** – Effective for taxable years beginning on or after January 1, 2007, RDPs under California law must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs will have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

If you entered into a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, effective for taxable years beginning on or after January 1, 2007, you are required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status. For more information on what states have legal unions that are considered substantially equivalent, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **RDP**.

For purposes of California income tax, references to a spouse, a husband, or a wife also refer to a California Registered Domestic Partner (RDP), unless otherwise specified. When we use the initials (RDP) they refer to both a California Registered Domestic "Partner" and a California Registered Domestic "Partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

**Round Cents to Dollars** – Beginning with the 2007 tax forms, round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25. If you do not round, FTB will disregard the cents. This change helps process your returns quickly and accurately.

**Conformity** – For updates regarding the following federal act, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **conformity**.

- Small Business and Work Opportunity Tax Act of 2007
- Mortgage Forgiveness Debt Relief Act of 2007

**Pending State Legislation** – There is pending legislation that if enacted will provide full or partial conformity to Section 2 of the Mortgage Forgiveness Debt Relief Act of 2007. Assembly Bill 1918, as introduced, provides full conformity and Senate Bill 1055, as introduced, provides modified conformity.

**Direct Deposit Refund** – You can request a direct deposit refund on your tax return whether you e-file or file a paper return. Be sure to fill in the routing and account numbers carefully and double-check the numbers for accuracy to avoid it being rejected by your bank.

### IRC 409A Additional Taxes for Discounted Stock Options and Stock

**Appreciation Rights** – For those employees who exercised certain discounted stock options or stock appreciation rights in 2006 and whose employer participated in the Franchise Tax Board's 2007 Compliance Resolution Program described in FTB Notice 2007-1 and paid the additional IRC Section 409A taxes on behalf of their employees, the additional taxes paid by the employer should be

included as compensation in the employee's 2007 Form W-2.

**El Dorado and Southern California Wildfires** – For tax treatment information for victims of the wildfires that occurred in El Dorado, Santa Barbara, Ventura, Los Angeles, San Bernardino, Orange, Riverside, and San Diego counties, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

**January 2007, Freezing Conditions** – For tax treatment information for victims of the January 2007, freeze that occurred in El Dorado, Fresno, Imperial, Kern, Kings, Madera, Merced, Monterey, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, Santa Clara, Stanislaus, Tulare, Ventura, and Yuba counties, get FTB Pub. 1034, How to Claim a State Tax Deduction for Your Disaster Loss.

**Teacher Retention Credit** – For taxable years beginning on or after January 1, 2007, the Teacher Retention Credit has been repealed.

**ReadyReturn** – If you are single and your income is only from wages, you may qualify for ReadyReturn. It simplifies the filing process by pre-filing a tax return with information the state already has. For more information and to see if you qualify, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **ReadyReturn** or call (800) 338-0505.

**My FTB Account** – Make tax time less taxing! Check My FTB Account for information about your estimated tax payments, FTB issued 1099-Gs, 1099-INTs, California wage and withholding data and more! Go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **My Account**.

## Other Important Information

**Heroes Earned Retirement Opportunities Act** – California conforms to the Federal Heroes Earned Retirement Opportunities Act that allows members of the Armed Forces serving in a combat zone to make contributions to their individual retirement plans even if the compensation on which such contribution is based is excluded from gross income.

**Capital Gains Distributed from Mutual Funds** – For taxable years beginning on or after January 1, 2006, taxpayers can report capital gain distributions from mutual funds on Form 540 2EZ, if the amount reportable during the taxable year for federal and state purposes is the same.

**Withholding on California Real Estate** – For transactions occurring on or after January 1, 2007, that require withholding, a seller of California real estate may elect an alternative to withholding 3 1/3 percent of the total sales price. The seller may elect an alternative withholding amount based on the maximum tax rate for individuals, corporations, or banks and financial corporations, as applied to the gain on the sale. The seller is required to certify under penalty of perjury the alternative withholding amount to the Franchise Tax Board. For real estate installment sales, if a buyer receives a seller's certification as to an alternative withholding election, the buyer would be required to withhold either the full alternative withholding amount at the time of sale or an alternative withholding percentage on the amount of each installment payment.

**Tax Shelter** – If the individual was involved in a reportable transaction, including a listed transaction, the individual may have a disclosure requirement. Attach federal Form 8886, Reportable Transaction Disclosure Statement, to the back of the California return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the return, send a duplicate copy of the federal Form 8886 to the address below. The FTB may impose penalties if the individual fails to file federal Form 8886, or any other required information.

ATSU 398 MS F385  
FRANCHISE TAX BOARD  
PO BOX 1673  
SACRAMENTO CA 95812-9900

For more information, go to our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) and search for **tax shelters**.